



**CORPORATE FRANCHISE TAX
INDIVIDUAL INCOME TAX
INS. GROSS PREMIUMS TAX
Historic Rehabilitation Credit**

February 13, 2023

	Yes	No
DOR Administrative Costs/Savings		x

Department of Revenue
Analysis of S.F. 1340 (Dziedzic) / H.F. 1488 (Youakim)

	Fund Impact			
	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>
		(000's)		
General Fund	(\$31,500)	(\$35,000)	(\$35,000)	(\$35,000)

Effective beginning July 1, 2023.

EXPLANATION OF THE BILL

Current Law: The historic rehabilitation credit is a refundable credit equal to 20% of qualified rehabilitation expenditures (QREs). The first requirement to receive the state tax credit is that the taxpayer must qualify for the federal tax credit. As with the federal credit, the Minnesota credit is spread over a period of five years.

The State Historic Preservation Office (SHPO) cannot allocate credits after June 30, 2022. Projects allocated credits prior to that date can receive credit certificates through fiscal year 2025. After a project is completed and placed in service, the final step is to issue tax credit certificates. Taxpayers use tax credit certificates to claim the tax credit.

Proposed Law: The bill would reinstate the credit effective July 1, 2023, allowing SHPO to allocate credits on or after that date. There is no sunset. The credit would be payable as a lump sum the year the project is placed in service, where it has previously been payable in five equal yearly installments.

REVENUE ANALYSIS DETAIL

- Minnesota Management and Budget and SHPO provided data on the amount of historic rehabilitation credits between fiscal years 2013 and 2020. The average amount of credits issued per year during this period is about \$35 million.
- A portion of this amount (5%) reflects grants in lieu of credits.
- Credits would be available for only half of tax year 2023; demand is expected to reflect more than half of a typical year's activity.
- The amount of tax certificates associated with tax year 2023 is \$21.0 million.
- The amount of tax certificates associated with tax year 2024 and for each year beyond is estimated to be \$35.0 million.
- The payment of the credit associated with each project is paid as a lump sum in the year the project is placed in service.
- Fiscal year 2025 is the first fiscal year where the revenue loss is \$35 million. For fiscal years after 2025, the revenue loss remains steady at \$35 million.

REVENUE ANALYSIS DETAIL (Cont.)

- The first payment in tax year 2023 is allocated to fiscal year 2024. For all other payments, tax year impacts are allocated 30% / 70% to fiscal years.

Minnesota Department of Revenue
Tax Research Division
[https://www.revenue.state.mn.us/
revenue-analyses](https://www.revenue.state.mn.us/revenue-analyses)

sf1340(hf1488) historic rehab credit _1 / sr